

The manufacturing machinery and equipment exemption extends to repair and replacement parts as long as the parts are incorporated into machinery and equipment that is exempt under the regulation. See 86 Ill. Adm. Code 130.330(c). (This is a GIL.)

January 11, 1999

Dear Mr. Xxxxx:

This letter is in response to your letter dated October 30, 1998. The nature of your letter and the information you have provided require that we respond with a General Information Letter which is designed to provide general information, is not a statement of Department policy and is not binding on the Department. See 86 Ill. Adm. Code 1200.120(b) and (c), enclosed.

In your letter, you have stated and made inquiry as follows:

My client is a corporation located outside of your state which is contemplating having a salesman or a sales rep solicit orders in your state. This corporation is a retailer of replacement parts which are used on machinery in the manufacturing of corrugated boxes. Some of these parts have a life of greater than one year. I have outlined each of the major products sold by my client below. Please provide me with applicable statutes, regulations and other relevant guidance that your state offers to manufacturers and other taxpayers. Please also provide me with an opinion as to whether or not each of these products are subject to your sales tax and why or why not.

1. A consumable plastic cover which attaches to existing manufacturing equipment and is used directly in the manufacturing process by protecting the cutting blade from damage as corrugated sheets are cut for the purpose of making a box. The life of the cover lasts less than 6 months.
2. A consumable plastic cover mounted on a head or a drum which attaches to existing manufacturing equipment and is used directly in the manufacturing process. As noted in item 1 above, the cover is used directly in the manufacturing process and lasts less than 6 months. Both the head and drum lasts more than 6 months and typically more than 1 year. The cover, head and drum can be sold separately.
3. A consumable plastic roller or a consumable plastic wheel, which attaches to existing manufacturing equipment and is used directly in the manufacturing process by facilitating the movement of corrugated sheets through the machine and lasts less than 6 months.
4. A metal die rack which is used to store dies. The rack lasts more than 1 year.

5. A knife which is fixed to existing manufacturing equipment and used directly in the manufacturing process to cut corrugated sheets and lasts less than 6 months.

Thank you for your assistance in this matter. If you have any questions, please contact me at ####.

Under the Retailers' Occupation Tax Act, the manufacturing machinery and equipment exemption is available for machinery and equipment used primarily (over 50% of the time) in the manufacturing or assembling of tangible personal property for wholesale or retail sale or lease. See 86 Ill. Adm. Code 130.330, enclosed. Generally, the use of machinery or equipment to effect a direct and immediate physical change upon the tangible personal property to be sold will be considered to constitute an exempt use under the manufacturing machinery and equipment exemption. The exemption also extends to repair and replacement parts as long as the parts are incorporated into machinery and equipment that is exempt under the regulation. Please note that storage facilities for parts generally do not qualify.

Under Section 130.330(b)(2), "[m]anufacturing" is defined as the production of any article of tangible personal property, whether such article is a finished product or an article for use in the process of manufacturing or assembling a different article of tangible personal property, by procedures commonly regarded as manufacturing, which changes some existing material or materials into a material with a different use, form, or name. These changes must result from the process in question and be substantial and significant.

Under Section 130.330(c)(2), machinery is defined as "major mechanical machines or major components of such machines contributing to a manufacturing or assembling process: including, machinery and equipment used in the general maintenance or repair of such exempt machinery and equipment or for in-house manufacture of exempt machinery and equipment."

Under Section 130.330(c)(3), equipment is defined as "any independent device or tool separate from any machinery but essential to an integrated manufacturing or assembling process: including computers used primarily in operating exempt machinery and equipment in a computer-assisted design, computer-assisted manufacturing (CAD/CAM) system; or any subunit or assembly comprising a component of any machinery or auxiliary, adjunct, or attachment, parts of machinery, such as tools, dies, jigs, fixtures, patterns and molds, and any parts which require periodic replacement in the course of normal operation."

In addition to the exemption for manufacturing machinery and equipment, the State of Illinois provides a manufacturer's purchase credit (MPC) on the purchase of tangible personal property that qualifies for the manufacturing machinery and equipment exemption. See 35 ILCS 105/3-85; 35 ILCS 110/3-70; and 86 Ill. Adm. Code 130.331. Manufacturers who have earned MPC on the purchase of qualifying manufacturing machinery and equipment can use that MPC to satisfy their Use Tax or Service Use Tax liability on the purchase of production related tangible personal property. Please note that the amount of MPC that can be applied to a

purchase of production related tangible personal property is limited to the state rate of tax incurred on that property (6.25%). Any local taxes incurred on the purchase of production related tangible personal property remain the responsibility of the purchaser.

I hope this information is helpful. If you have further questions related to the Illinois sales tax laws, please contact the Department's Taxpayer Information Division at (217) 782-3336.

If you are not under audit and you wish to obtain a binding Private Letter Ruling regarding your factual situation, please submit all of the information set out in items 1 through 8 of the enclosed copy of Section 1200.110(b).

Very truly yours,

Martha P. Mote  
Associate Counsel

MPM:msk  
Encl.